



Presentation to the Joint Appropriations Committee on Transportation



North Carolina Department of State Treasurer
Learn. Invest. Grow. Prosper.

March 17, 2015

Debt Affordability Advisory Committee

The Committee is legislatively directed to:

- Annually advise the Governor and the General Assembly of the estimated debt capacity of the General Fund for the upcoming ten years
- Annually advise the Governor and the General Assembly of the estimated debt capacity of the Highway and Highway Trust Fund (“Transportation” funds) for the upcoming ten years
- Recommend other debt management policies it considers desirable and consistent with the sound management of the State’s debt



Study makes no recommendations regarding the use of available debt capacity.

Study is due February 1.



Debt Affordability Advisory Committee

Membership

- Janet Cowell, State Treasurer
- Lee Roberts, State Budget Officer
- Lyons Gray, Secretary of Revenue
- Beth Wood, State Auditor
- Linda Combs, State Controller

Senate Appointees

- Frank Aikmus
- Bradford Briner

House Appointees

- Gene Chianelli
- Tom Turner



Review: What is Debt Affordability?

The amount of debt that may be prudently authorized and issued in a given period *without* negatively affecting the credit position or impairing the budget flexibility of the issuer.

- The amount of debt that is affordable (“capacity”) is finite
- Capacity can be measured and compared
- Issuance beyond a prescribed level can erode credit ratings
- The State measures its available capacity using tax-supported debt: self-supporting debt is excluded



Outstanding Transportation Debt by Type at 6/30/14

Tax-Supported Debt*	(millions)
Highway Fund Supported GO Bonds	\$282.2
“GAP Funding” Supported NCTA Revenue Bonds	\$769.2
“Availability Payments” & DRAM (total of payment amounts)	<u>\$88.0</u>
Total Transportation Tax-Supported Debt	\$1,139.4
Non Tax-Supported Debt	(millions)
GARVEEs (Grant Anticipation Revenue Vehicle Bonds)	\$540.8
Toll Supported NCTA Revenue Bonds(includes TIFIA)	<u>\$621.6</u>
Total Transportation Non Tax-Supported Debt	\$1,162.4
Total Transportation Debt	<u>\$2,301.8</u>

* Tax-supported debt includes debt supported by state (not federal) highway revenues, for example motor fuels tax and vehicle registration fees.



Transportation Debt Affordability

- Highway and Highway Trust Fund capacity combined
- All State-level transportation revenues used (DOT projection)
- Federal revenues, toll revenues (and any related toll-supported debt) and GARVEES are excluded
- “GAP Funding” for NCTA projects (\$49 million/year), availability payments and commitments under a DRAM are included
- Guideline adopted: amounts used for transportation-related debt support should not exceed 6% of the State’s transportation revenues



Transportation Model Highlights

10-Year Model Horizon

All State –level Transportation Revenues included
(federal revenues excluded)

Repayment of existing debt and NCTA bond support incorporated
(GARVEE debt service excluded)

Assumes future debt issued at 6.15% for 25 year term
(conservative)

Guideline adopted based on analysis of peers (mostly
southeastern) developed in consultation with DOT:



Transportation Peer Group Comparisons

Transportation Group Comparisons

<u>State</u>	<u>Ratings ⁽⁵⁾</u>	<u>Maturity / Yrs</u>	<u>Transportation DS % of Transportation Revenues ^{(1) (2)}</u>
Florida	AAA/AAA/Aa1	30	6.2%
Georgia ⁽³⁾	AAA/AAA/Aaa	15	17.7%
Kentucky	AA-/AA-/Aa2	20	8.6%
Missouri ⁽⁴⁾	AAA/AAA/Aaa	20	15.2%
North Carolina	AAA/AAA/Aaa	20	3.8%
South Carolina	AAA/AA+/Aaa	10	6.0%
Tennessee	AAA/AA+/Aaa	N/A	0.0%
Texas	AAA/AAA/Aaa	30	13.8%
Virginia	AAA/AAA/Aaa	25	3.0%
	Median		6.2%
	Average		8.2%

⁽¹⁾ The data for North Carolina, Kentucky and Missouri are from the 2014 CAFR, all others are from the 2013 CAFR.

⁽²⁾ Excludes Garvee debt service (if any) and Federal Revenues.

⁽³⁾ Allocated Debt Service.

⁽⁴⁾ Missouri uses overall capacity to support transportation debt; overall debt service as % of revenue = 1.8% (2013 CAFR).

⁽⁵⁾ Fitch / Standard & Poors / Moodys.



Transportation Model Results

2015 DAAC Study (August 2014 Consensus Forecast)

Transportation Debt Capacity

Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio

(In millions of dollars)

Fiscal Year	2015	2016	2017	2018	2019
Total Additional Debt Capacity per Year	\$1,043.5	\$22.1	\$70.9	\$0.0	\$0.0
Debt Capacity Available Each and Every Year	226.3	226.3	226.3	226.3	226.3

In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.



Combined GF and Transportation Results

General Fund and Transportation Funds Combined Debt Service / Revenue Percentages

Fiscal Year	2015	2016	2017	2018	2019
General Fund	3.66%	3.63%	3.28%	3.14%	2.95%
Transportation	3.69%	3.34%	3.39%	3.13%	3.14%
Combined	3.67%	3.59%	3.30%	3.14%	2.97%

Note: Percentages are based on forecasted revenues and debt service.



Transportation Model Results

February 2015 Consensus Forecast Transportation Debt Capacity

Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio
(In millions of dollars)

Fiscal Year	2015	2016	2017	2018	2019
Total Additional Debt Capacity per Year	\$874.5	\$0.0	\$181.5	\$0.0	\$11.8
Debt Capacity Available Each and Every Year	213.6	213.6	213.6	213.6	213.6

In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.

Based on Revenue Forecast provided by Fiscal Research February 3, 2015.



Transportation Model Results

Governor's Budget Forecast Transportation Debt Capacity

**Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio
(In millions of dollars)**

Fiscal Year	2015	2016	2017	2018	2019
Total Additional Debt Capacity per Year	\$1,060.8	\$0.0	\$259.3	\$5.2	\$46.9
Debt Capacity Available Each and Every Year	274.4	274.4	274.4	274.4	274.4

In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.

Based on revenue forecast contained in Senate version of SB 20.



Transportation Debt Capacity Solution Comparisons

Transportation Debt Capacity Solutions

